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ECONOMIC RESEARCH – JUNE 2025

INVESTMENT INSIGHT UK

- ✓ Leading indicators point to a transition
- ✓ Real wages continue to rise
- ✓ Household confidence fails to improve
- ✓ More complex trajectory for inflation
- ✓ BoE to remain on hold until September

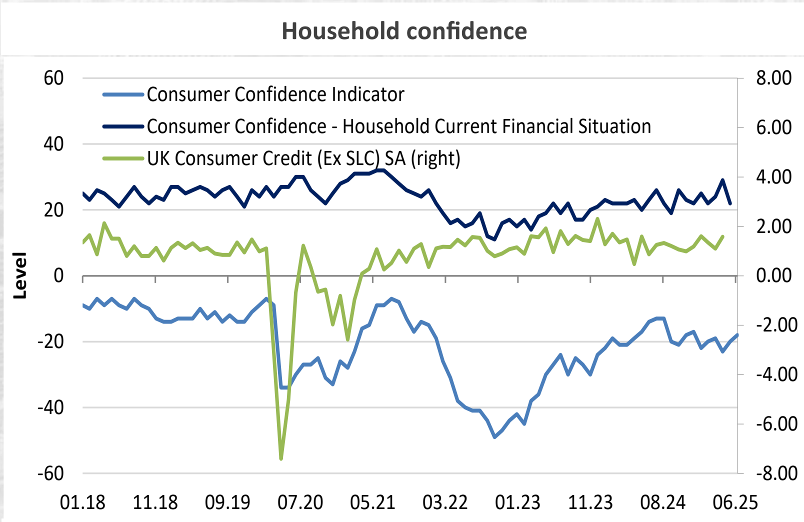
FOCUS ON BONDS AND REAL ESTATE

Leading indicators point to a transition

Leading indicators for May 2025 present a mixed picture of the UK economy. The Composite PMI increased slightly to 50.3, driven by a modest recovery in the services sector, which reached a PMI of 50.9. However, this rebound remains fragile. In stark contrast, the manufacturing sector's PMI fell to 46.4, its worst performance in 19 months, with production and orders declining.

Evolving labor market dynamics

The UK labor market is undergoing a phase of adjustment. The unemployment rate saw a slight rise to 4.6% in April 2025, suggesting some easing in the labor market. While nominal wage growth remains relatively strong, rising by +5.3% in April, real wages are increasing at a much slower pace due to persistent inflation. This indicates that while incomes are growing, their purchasing power is only modestly improving. The growth in real wages is a key factor in determining future household spending.



Sources : Bloomberg, BBGI Group

Household confidence remains cautious

Despite some gradual improvement, household confidence in the UK remains fragile. The consumer confidence index rose slightly to -18 in June 2025, up from -23 in April, reflecting a cautious optimism. However, it is still well below its long-term average, as consumers remain concerned about persistent inflation, rising energy costs, and broader economic uncertainty.

A complex inflation trajectory

The path to the Bank of England's (BoE) 2% inflation target is proving to be complex. The CPI stood at 3.4% in May, slightly down from April but still well above the target. Core and services inflation are also showing a slowdown. However, the trajectory remains "bumpy," with continued risks from global uncertainties and potential impacts from tariffs, even as some domestic pressures, like wage growth, begin to moderate.

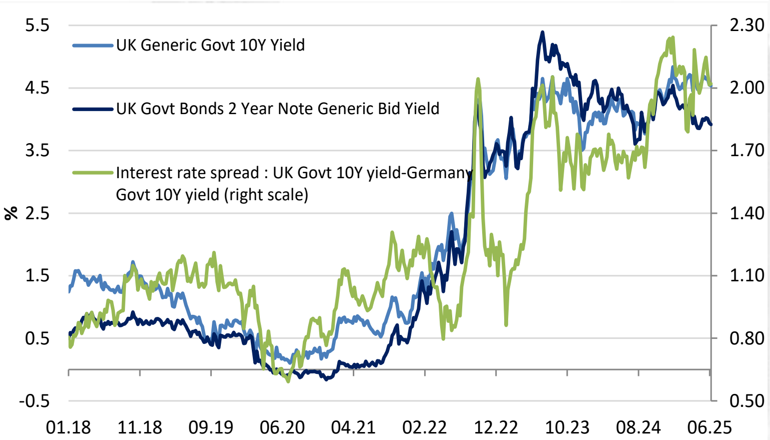
BoE maintains a cautious stance

The Bank of England's Monetary Policy Committee voted to keep the key interest rate at 4.25% in June 2025. This cautious approach is a response to persistent inflation risks, despite signs of weakening economic growth and a softening labor market. The BoE is signaling its commitment to maintaining a restrictive policy to combat inflation, even if it comes at the cost of dampening economic growth.

Expected stasis until September

Given the current economic outlook, the Bank of England is unlikely to make any changes to its key interest rate in the near term. The MPC is expected to wait for more definitive data on inflation and economic activity. A rate cut is not anticipated before September, at the earliest, as the central bank remains flexible and responsive to incoming data rather than following a predefined path. This approach highlights the BoE's data-dependent strategy in a highly uncertain economic environment.

Government rates (2y-10y)



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